

In the Matter of)	No. G 03-106
)	
)	
Mutual of Enumclaw Insurance Company)	FINDINGS, CONCLUSIONS, AND
)	
Domestic Mutual Insurer)	ORDER ADOPTING REPORT
)	
)	OF
)	
)	MARKET CONDUCT EXAMINATION

BACKGROUND

An examination of the market conduct of **Mutual of Enumclaw Insurance Company** (the Company) as of December 31, 2002, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). Mutual of Enumclaw Insurance Company holds a Washington Certificate of Authority as a Mutual Insurer. The Company is domiciled in Washington. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for comments on November 2, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 3 through 27 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the market conduct examination of **Mutual of Enumclaw Insurance Company**, and to order the Company to take the actions described in the Instructions and Recommendations section of the report. The Commissioner acknowledges that the Company may have implemented the Instructions prior to the date of this order. The Instructions in the report are an appropriate response to the matters found in the examination.

ORDER

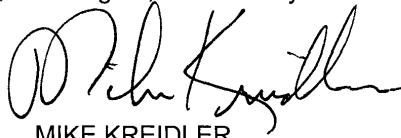
The market conduct examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Recommendations contained in the examination report on page 24.

1. The company is ordered to comply with RCW 48.17.160(3) and notify the Office of the Insurance Commissioner when an agent's appointment has been revoked. Instruction 1, Report Page 10
2. The company is ordered to comply with WAC 284-24-100 and fairly apply its schedule rating plans to every eligible policy. In addition, the company is instructed to identify all policies that were debited inappropriately and refund the overcharged premium by December 31, 2003. Instruction 2, Report Page 13
3. The company is ordered to comply with RCW 48.19.040(6) and follow its filed rules and rates when issuing a policy. Instruction 3, Report Page 15
4. The company is ordered to comply with WAC 284-30-390 when establishing the market value of total loss automobiles. Instruction 4, Report Page 18
5. It is ordered that the company incorporate in its self audits, review for use of the company's legal name in its self audits, now that there is more than one company in the Enumclaw group, to ensure compliance to RCW 48.05.190. Recommendation 1, Report Page 9.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Market Conduct Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 18th day of December, 2003.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER
Insurance Commissioner

MARKET CONDUCT EXAMINATION

**MUTUAL OF ENUMCLAW
INSURANCE COMPANY
1460 WELLS ST
ENUMCLAW WA 98022**

JANUARY 1, 2002 – DECEMER 31, 2002



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following company:

Mutual of Enumclaw Insurance Company, NAIC #14761


In this report, the above entity is also referred to as “the company”. This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Mutual of Enumclaw Insurance Company during the course of this market conduct examination, and particularly acknowledge the efforts of those people who provided daily support to the examiners.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Prior Examination Summary

The company was examined in 1987. Because the prior exam occurred so far in the past; prior findings will not be included as part of this report.

SCOPE

Time Frame

The examination covered the company's operations from January 1, 2002 through December 31, 2002. The examination was performed in the company's home office in Enumclaw, Washington and in the OIC office in Seattle.

Matters Examined

The examination included the following areas:

Advertising
Agent Licensing
Complaints
Underwriting and Rating
Rate & Form Filings
Cancellations and Non-Renewals
Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ration, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed without Comment, Passed with Comment or Failed. The definition of each category follows.

Passed without Comment:	There were no adverse findings for the standard.
Passed with Comment:	The records reviewed fell within the tolerance level for the standard.
Failed:	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Mutual of Enumclaw Insurance Company	WA	08-11-1899	01-02-1900

The company wrote the following personal lines of business during the exam period:

Homeowner	Personal Inland Marine
Boatowner	Private Passenger Auto
Dwelling Fire	Personal Excess
Mobile homeowner	Recreational vehicles

The company wrote the following commercial lines of business during the exam period:

Commercial Auto	Business Owners Policy
Commercial Fire	Farm Owner Package
Commercial General Liability	Farm Fire
Commercial Package	Farm Inland Marine
Commercial Inland Marine	
Commercial Umbrella	

A group of residents in the Enumclaw area founded the company in 1898 for the purpose of providing fire insurance to the community. The company was re-incorporated in 1899 as a mutual company to write general fire coverage on rural properties on an assessment basis. The company no longer writes assessable policies. Mutual of Enumclaw, the current name, was adopted in 1966. The company now writes property and casualty insurance that provides a broad spectrum of personal and commercial insurance products in Washington, Oregon, Idaho, Nevada, Arizona, and Utah.

In 2002, Enumclaw Property and Casualty Insurance Company, a subsidiary of Mutual of Enumclaw Insurance Company, was established in Washington with the same home office location and under common management staff with Mutual of Enumclaw. As this company was admitted after the start of the examination period and wrote no Washington business in 2002, this company was not included in this examination.

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
2	The company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies.	RCW 48.07.070

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The company maintains full and accurate records and accounts.	RCW 48.05.280
4	The company filed an antifraud plan with the Office of Insurance Commissioner.	RCW 48.30A.045

The following General Examination Standard Passed with Comment (see page 9 for details):

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

ADVERTISING

The company's advertising file consisted of 24 brochures, mailings, or radio advertisements and the website www.mutualofenumclaw.com.

Radio advertising was promoting company name recognition with both personal and commercial products. Brochures were distributed to agents for use in promoting the company's products. The website contained a brief company history, information about specific products, employment with the company and how to find an agent.

The examiners reviewed all documents that were used by the company during the exam period to determine compliance with the laws governing advertising.

Findings

The following Advertising Standards Passed without Comment:

#	ADVERTISING STANDARD	REFERENCE
1	The company's advertising materials do not contain any	RCW 48.30.040

#	ADVERTISING STANDARD	REFERENCE
	false, deceptive or misleading representations.	
2	The company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public.	WAC 284-30-660
3	The company must use its full name and include the location of its home office or principle office in all advertisements.	RCW 48.30.050, Bulletin 78-7, Technical Assistance Advisory T 2000-06
4	The company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively.	RCW 48.30.070
5	The company does not advertise the existence of the Washington Insurance Guaranty Association.	RCW 48.30.075
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers.	RCW 48.30.080
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products.	RCW 48.30.090
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured, any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute.	RCW 48.30.140, RCW 48.30.150

The following General Examination Standard Passed with Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

- One page on the website that discussed coverage options contained the following statement: "Enumclaw Insurance Group, currently licensed to do business in Washington..." The company does not hold a license in the name Enumclaw Insurance Group.

Subsequent event: The company advised that this was corrected June 15, 2003.

AGENT ACTIVITIES

The examiners selected 45 agents for review from the new and renewed policies reviewed in the underwriting sample and from the list of active agents provided by the company. As part of the review, the examiners compared the Company's agent licensing records with the Office of the Insurance Commissioner's (OIC) records to ensure that agents soliciting business for the company were licensed and appointed prior to soliciting business on behalf of the company as required by Washington law.

Findings

All agents and agencies reviewed by the examiners were licensed and appointed in Washington.

The following Agent Activity Standard Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The company must ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way.	RCW 48.17.060(1) and (2)
2	The company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company.	RCW 48.17.160(1) and (2)

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
3	The company must notify the Office of the Insurance Commissioner when an agent's appointment is revoked.	RCW 48.17.160(3)

- The examiners identified one agent that had a non-resident license who was no longer appointed with the company. The company had failed to notify the OIC as required. The company rectified this while the examiners were on site.

COMPLAINTS

The examiners selected 25 complaint files for review from a population of 270 written complaints received by the companies between January 1, 2000 and March 31, 2003. The complaint files were either filed with the OIC or received directly from the customer. The complaints consisted of claims issues, underwriting and marketing issues.

Files were reviewed to determine if the company responded to complaints filed with the OIC within time frames stated in its procedures and those required by Washington law. Files were also reviewed for adverse trends.

The examiners reviewed the company's complaint handling procedures. The complaints are logged when initially received, and then routed to the appropriate department manager for response. The responses are also logged.

One claim file reviewed contained a violation of WAC 284-30-360(3) as the company failed to respond to the insured's attorney in the time frame mandated – 10 working days. At the time of the complaint, approximately one month later the company still had not responded to the attorney. This was addressed by the Compliance Officer handling the complaint.

One claim file was denied based on the claim handler's position that there was no coverage. The examiner disagreed and returned it to claim management for review. The company agreed that the claim handler was in error and had misread the coverage. The claim was returned to be re-opened and paid. \$4649.85 was paid on the claim.

Findings

The following Complaint Standard Passed with Comment:

#	COMPLAINT STANDARD	REFERENCE
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	WAC 284-30-650, WAC 284-30-360(2), Technical Assistance Advisory T 98-4

- One file contained a response that was 13 days late. The Company acknowledged the delay.

UNDERWRITING AND RATING

The examiners selected 150 personal lines policies from a population of 96707 policies and 145 commercial policies from a population of 45834 policies which were either newly issued or renewed during the exam period.

Files were reviewed to determine if the companies:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the company's computer system and if the company was using its filed and approved rates.

The following errors were returned to the underwriting management for review and correction if needed:

Personal Lines

- The company processed new and renewal policies following a filed and approved rate increase. Upon review the company decided that the size of the premium increase was larger than it had intended in territories 28 through 36. The company re-filed its rates. The company revisited those policies that had been processed with the inflated rates and re-funded the overcharged premium. 968 policies were re-rated which resulted in return premium of \$34, 273. There were no violations associated with the company's actions.
- It is a requirement by the company that its insured be licensed in the state in which they live. Four Washington policies were written or renewed even though the insureds were not licensed in Washington.
- The company had renewed personal auto policies during three weeks in February 2002. The insureds were not notified of premium changes as required by RCW 48.18.292. The company, upon discovering the error, issued a notice to the insureds and agents. The notice addressed the change in premium as required by law.
- One Oregon policy form was added to a policy, instead of the Washington approved form.
- The company did not follow up for a US Coast Guard or Power Squadron certification to verify eligibility for a credit on one boat application.

Commercial lines:

- One policy was rated in the wrong protection class based on information provided by the agent, which resulted in undercharging the insured a total of \$546 for the two policy periods.
- Information on the driving record of one commercial policy had not been obtained.

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560
2	The company must require an insured to reject, or request lower limits for underinsured motorist (UIM) coverage in writing. The company must require an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.030(4), RCW 48.22.085(2)
3	During underwriting, the company uses only the personal	RCW 46.52.130,

#	UNDERWRITING STANDARD	REFERENCE
	driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 48.30.310, Bulletin 79-3
6	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
7	Binders must identify the insurer which is bound by the form.	WAC 284-30-560(2)(a)

The following Underwriting Standards Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
5	The company retains all documentation related to the development and use of (a) rates.	WAC 284-24-070

- One personal lines umbrella policy was written with increased limits. The company's filing did not include documentation to support the "a" rate. The company has been advised that using "a" rates in this fashion is not appropriate for this class of business, and that a rate filing should be submitted.

The following Underwriting and Rating Standard Failed:

#	UNDERWRITING & RATING STANDARD	REFERENCE
4	The company applies schedule rating plans to all policies as applicable in their filing.	WAC 284-24-100

- The examiners found that the company debited policies because of "market conditions" between September 2001 and May 31, 2002 based on a memo found in the underwriting manual. This is a deliberate misuse of schedule rating plans also know as "Individual Rate Premium Modifications" (IRPMs). It is apparent that the intent was to recover from underwriting losses without re-filing for rate increases. The vice president of underwriting and the commercial underwriting manager distributed a memo "Commercial Lines Pricing Strategy for IRPMs". The memo included reasons to apply IRPMs for things such as "rising costs generally in commercial lines", "price increase are partially based on Sales field results" "legal climate" or "market conditions". The memo outlined increases based on lines of business and territories based on sales fields. The recommendations run between 10 and 20%. The underwriters were also given an IRPM worksheet sample that showed "market conditions" as the support for debiting the policy. According to the current vice president of underwriting, this pricing strategy was implemented at a meeting with the underwriters August 7, 2001 and stopped at his direction via an e-mail on February 4, 2002. Based on the lead time for offering renewals it appears that the practice continued until approximately May 31, 2002. The examiners required the company to identify all policies that were debited inappropriately and refund the overcharged

premium. Approximately \$1.16 million will be refunded to 6,636 policyholders by November 1, 2003.

- Eight policies (5.5%) were debited or credited without the supporting documentation or analysis required. Refunds were issued on debited policies.

See Appendix 1 for detail.

Subsequent event: Underwriting management held a training meeting with the underwriters to discuss compliance to WAC 284-24-100. The company also reviewed file documentation requirements to support IRPM decisions.

On October 27, 2003, the Company advised the examiners that the refunds associated with the IRPM issues identified above are more extensive than originally projected. The Company stated that the refunds will be complete by December 31, 2003.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose was to determine if the Companies were complying with the laws regarding the filing and use of rates and forms.

- The following errors were returned to underwriting management for review:
- The company did not include a \$5.00 charge for medical payments on one boat policy.
- The company did not give a credit for a boating safety course, even though it was checked as applicable on the application.
- The company did not charge for medical payments coverage on one boat policy. The policy will be corrected at renewal.
- The underwriting rules state that the company will charge a one time \$25 non-refundable fee when the insured needs to have a financial responsibility certificate (SR22) filed with the Department of Transportation. There was nothing in their policy to say the fee was non-refundable.

Subsequent Event: The company advised that a programming change had been done to correctly show the following statement on the declaration page of policies with SR 22 filings, along with other coverages, limits of liability, deductibles and premiums:

“Financial responsibility certificate \$25 (One time \$25 non-refundable fee)”

Findings

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM STANDARD	REFERENCE
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#	RATE AND FORM STANDARD	REFERENCE
3	The policy must identify all forms that make up the policy. The policy will identify all coverage limits.	RCW 48.18.140(2)(f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095, RCW 48.22.005

The following Rate and Form Filing Standards Passed with Comment:

#	RATE AND FORM STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100, RCW 48.18.103

- There was an error in the Farm Manual that required a specific liability form to be added to all farm policies with a Commercial General Liability contract. The form was only intended to be attached when Personal Liability is added.

Subsequent event: The company requested a correction of the filing while the examiners were on site. The company received approval for the correction effective June 15, 2003.

The following Rate and Form Filing Standards Failed:

#	POLICY PROVISION STANDARD	REFERENCE
2	Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing then in effect.	RCW 48.19.040(6)

Personal lines:

- The company wrote 5644 boat policies between January 1, 2000 and June 13, 2003. Based on a sample of 50 policies, at the request of the examiners, the company determined that 2% - or approximately 113 boat policies were rated incorrectly. The filed rating rules indicate that the value of the boat being insured would be rounded to the nearest \$100. Failing to round resulted in some policies being overcharged by \$1.00, and some being undercharged by \$1.00. The company was instructed to correct all in-force policies at renewal.
- Two policies were rated in wrong fire protection class.
- Two policies were not given smoke alarm credits resulting in refunds totaling \$4.00.

- Two policies did not receive the Preferred Customer Credit resulting in refunds totaling \$91.00.
- The company did not receive the required verification for a Good Student discount before granting the discount.

Commercial lines:

- 6636 policies were not rated according to the filings in effect because the company arbitrarily applied debits rather than rate the individual risk characteristics as required in the filing.
- 2 eligible policies did not received experience rating consideration.

See Appendix 2 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the company was in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 100 policies from a population of 16,451 personal policies and 95 policies from a sample of 5017 commercial policies that were either cancelled or non-renewed during the exam period.

The examiners also looked at 31 cancelled or non-renewed policies that were written through three non-resident agents whose relationship with the company had ended.

Findings

The following Cancellation and Non-renewal Standards Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company.	RCW 48.17.591
2	The company either sends an offer to renew or sends cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570

CLAIM SETTLEMENT PRACTICES

The examiners selected 220 claim files for review from a population of 62,845 claims closed during the examination period. The company was unable to provide a separate list of files

that contained first party total losses. The total loss files that were reviewed were taken from the general population of claim files.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

The claims are handled in the home office in Enumclaw, Washington, or by field staff in satellite locations in Washington. The following errors were returned to claims management for review:

- Calculation of damages resulted in overcharging the at fault party. The examiners returned the file to refund this money and also to reimburse the insured additional funds that were still owed. Total refunds of \$189.59 to the insured and \$10.41 to the at fault party were made.
- The company calculated the cost of replacement and depreciation incorrectly. \$670.48 additional payment was made to the insured.
- A claim was closed without reimbursing the insured for money recovered from the at fault part to cover the deductible. \$71.01 was returned to the insured.

Findings

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330(1)
4	The company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed.	WAC 284-30-360(1) and (3)
5	The company complies with requirements for prompt investigation of claims.	WAC 284-30-370
6	The company must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395

#	CLAIM STANDARD	REFERENCE
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
2	Claim files contain detailed log notes and work papers that to allow the examiners to reconstruct the claim file.	WAC 284-30-340
3	The company provides an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350

Claim Standard # 2

- Nine files (4%) did not contain sufficient documentation, log notes or work-papers to reconstruct the pertinent events in the claim file. See Appendix 3 for detail.

Claim Standard #3

- One file (< 1%) contained no documentation that the coverage that the insured was entitled to was explained. See Appendix 3 for detail.

The following Claim Standard Failed

#	CLAIM STANDARD	REFERENCE
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390

Claim Standard #7

- Ten files (5% of the claim files examined) contained total losses that were not handled according to the requirements of WAC 284-30-390, either because the total loss had been calculated using a book value (such as NADA) which is not permitted, or because there was no documentation to support the salvage value. The company reevaluated the total losses based on the information that did not include the book value. Additional payments were issued on those claims where the total loss had been under valued because the company used the NADA value. See Appendix 3 for detail.

Subsequent event: The company provided the examiners a copy of a training memo that was sent to all field claims personnel regarding the appropriate methods for establishing a total loss evaluation. It also provided documentation that the forms used for the total loss evaluation by the appraisers had been changed to omit the option of using a book value.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies. (RCW 48.07.070)	8	X	

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8, 9	X	
3	The company maintains full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The company filed an antifraud plan with the Office of Insurance Commissioner. (RCW 48.30A.045)	8	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The company's advertising materials do not contain any false, deceptive or misleading representations. (RCW 48.30.040)	8	X	
2	The company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)	9	X	
3	The company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Technical Assistance Advisory T 2000-06)	9	X	
4	The company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively.	9	X	

#	STANDARD	PAGE	PASS	FAIL
	(RCW 48.30.070)			
5	The company does not advertise the existence of the Washington Insurance Guaranty Association. (RCW 48.30.075)	9	X	
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)	9	X	
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)	9	X	
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. (RCW 48.30.140, RCW 48.30.150)	9	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The company must ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the Companies in any way. (RCW 48.17.060(1) and (2))	10	X	
2	The company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the Companies. (RCW 48.17.160)	10	X	
3	The company must notify the Office of the Insurance Commissioner when an agent's appointment has been revoked. (RCW 48.17.160(3))	10		X

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Assistance Advisory T 98-4)	11	X	

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	12	X	
2	The company must require an insured to reject, or request lower limits for underinsured motorist (UIM) coverage, in writing, and, in writing, must require an insured to reject Personal Injury Protection (PIP) coverage.	12	X	
3	During underwriting, the company must obtain and use only the personal driving record for personal insurance and only the employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3)	13	X	
4	The company must apply schedule rating plans to all policies as applicable in its filing and retain documentation and analysis to support the company's decision. (WAC 284-24-100)	13		X
5	The company must retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	13	X	
6	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	13	X	
7	Binders must identify the insurer which is bound by the form. (WAC 284-30-560(2)(a))	13	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100, RCW 48.18.103)	15	X	
2	Where required, the company has filed with the OIC, classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040)	15		X
3	The policy identifies all forms that make up the policy. The policy identifies all coverage limits. (RCW 48.18.140(2)(f))	14	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	14	X	

#	STANDARD	PAGE	PASS	FAIL
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	15	X	
6	Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	15	X	

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company. (RCW 48.17.591)	16	X	
2	The company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	16	X	
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	16	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	17	X	
2	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file. (WAC 284-30-340)	18	X	
3	The company provides an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	18	X	
4	The company acknowledges receipt of a claim within 10 days, and responds to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1) and (3))	17	X	
5	The company complies with requirements for prompt investigation of claims. (WAC 284-30-370)	17	X	
6	The company accepts or denies coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	17	X	
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390)	18		X
8	The company complies with the regulation regarding	17	X	

#	STANDARD	PAGE	PASS	FAIL
	notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)			
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	17	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

1. The company is instructed to comply with RCW 48.17.160(3) and notify the Office of the Insurance Commissioner when an agent's appointment has been revoked. Page 10
2. The company is instructed to comply with WAC 284-24-100 and fairly apply its schedule rating plans to every eligible policy. In addition, the company is instructed to identify all policies that were debited inappropriately and refund the overcharged premium by December 31, 2003. Page 13
3. The company is instructed to comply with RCW 48.19.040(6) and follow its filed rules and rates when issuing a policy. Page 15
4. The company is instructed to comply with WAC 284-30-390 when establishing the market value of total loss automobiles. Page 18

RECOMMENDATIONS

1. It is recommended that the company incorporate in its self audits, review for use of the company's legal name in its self audits now that there is more than one company in the Enumclaw group, to ensure compliance to RCW 48.05.190.

APPENDIX 1

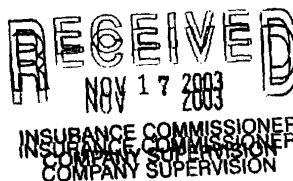
Policy Number	WAC 284-24-100 IRPM (Individual Risk Plan Modifications) Underwriting & Rating Standard #4	Premium returned to insureds
6636 policies	Company arbitrarily applied debits to groups of commercial policies (Package, commercial auto, business owners, farm, umbrella, etc) giving no consideration to the individual risk as required by law.	Estimated \$1.16 million to be refunded.
NC14746	No documentation was in the file to support the debit that was applied.	\$183
PKG 63059	No explanation or analysis to support the decision that this was an average risk	
PK90782	Analysis of underwriter's decision was not sufficient to support the decision regarding application of IRPM credits or debits	
MO31064	No documentation was in the policy file to support the debit that was applied.	\$119
BO29409	No documentation was in the policy file to support the debit that was applied.	\$642
NC38812	Analysis of underwriter's decision was not sufficient to support the decision regarding application of IRPM credits or debits	
FO30663	Analysis of underwriter's decision was not sufficient to support the decision regarding application of IRPM credits or debits	
CP30007659	Credit applied incorrectly to offset the conversion transition factor.	

APPENDIX 2

Policy Number	Rate & Form Filing Standard #2 RCW 48.19.040(6) Where a filing is required, no insurer shall make or issue an insurance contract or policy except in accordance with its filing then in effect.	Premium returned
Personal Lines		
5644 policies.*	Company was not rounding hull values as stated in its filed rating rules. Failure to round resulted in some policies overcharged \$1 and some undercharged \$1. Policies will be corrected at renewal. 5644 is an estimated number based on an initial sample of 50 policies.*	
HO 81020270	The company did not verify the fire protection class where the risk is located and the policy was rated based on the incorrect information and charged less than appropriate.	
HO 31035028	The company did not verify the fire protection class where the risk is located and the policy was rated based on the incorrect information and charged less than appropriate.	
HO 31174870	The company did not verify that there was a smoke alarm in an apartment as required by law, so no credit was given. When the insurer's agent contacted the insured, the agent confirmed there is a smoke alarm.	\$2.00
HO 01165111	The company did not verify that there was a smoke alarm in an apartment as required by law, so no credit was given. When the insurer's agent contacted the insured, the agent confirmed there is a smoke alarm.	\$2.00
PA 31079143	A Preferred Customer Credit was not applied to the policy as it should have been, resulting in an over charged premium.	\$49.00
PA51078117	A Preferred Customer Credit was not applied to the policy as it should have been, resulting in an over charged premium.	\$42.00
PA 41079594	The company applied a Good Student Discount and did not follow up to get the required grade transcript to verify the insured's daughter was entitled to the discount.	
Commercial Lines		
6636 policies	The company failed to follow its filings regarding policies eligible for schedule rating. Company arbitrarily applied debits to groups of commercial policies (Package, commercial auto, business owners, farm, umbrella, etc) giving no consideration to the individual risk as required by law.	
CP90002358	Experience rating not applied to eligible policy.	
CP40039538	Experience rating not applied to eligible policy.	

APPENDIX 3

Violation/ Claim Number	Description	\$ returned to insureds
Claims Standard #2, WAC 284-30-340: Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file.		
010200001227	No documentation on file to explain how the salvage value was established	
010200046241	No documentation on file to explain how the salvage value was established	
010200014915	No documentation on file to establish how the salvage value was established or any documentation supporting the offer that was made to settle the claim	
0102X0001214	No documentation in the file to support that UMPD coverage was explained to the insured	
010200030072	No documentation on file to explain how the salvage value was established	
010200022004	No documentation to explain under which coverage a payment was made	
0102X0038739	No documentation to explain how the settlement value was obtained	
0102X0030572	No log notes to document the verification of coverage prior to paying the loss	
0101x0044550	Log notes are incomplete	
Claim Standard #3, WAC 284-30-350 : The company must fully disclose pertinent coverage to insureds		
0102x0001214	No docs in file to show available coverage discussed.	
Claim Standard #7, WAC 284-30-390: The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.		
010200001227	No documentation to support the salvage value	
0102000024536	Appraiser arbitrarily reduced the value of the vehicle	\$326.40
010100046241	No documentation to support the salvage value	
010200014915	Vehicles selected were not comparables	\$1185.00
010200026737	Total loss evaluation included use of the "book" value	
010200000303	Total loss included use of a NADA figure	\$70.71
010200040065	Total loss included use of a NADA figure	\$244.80
010200022464	Total loss included use of a NADA figure	\$935.46
010100034238	Vehicles selected by the appraiser were not in local market area, even though local market vehicles were available.	\$2525.79
010200033974	Total loss included use of a NADA figure. Re-evaluation did not change the value of the vehicle.	



November 14, 2003

James T. Odiome, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Draft Report of Market Conduct Examination

Dear Mr. Odiome:

This will acknowledge your letter of November 3, 2003 and the enclosed draft Market Conduct Examination for the period from 1-1-2002 to 12-31-2002.

First, we wish to express our appreciation for the diligence and professionalism exhibited by the examination staff. Their attention to detail and insight relative to our processes added a value to the examination experience that we sincerely appreciate.

Second, we acknowledge the examination standard fail points discovered during the audit. As a result, we have strengthened our system of internal controls to minimize the likelihood of a future reoccurrence. A separate summary is attached outlining actions taken to correct business practices that failed the examination standard.

The remainder of this letter will address the incorrect use of IRPM's starting in the fall of 2001. As you may already know, a January 2002 Internal Audit of our Commercial Lines department revealed file documentation that was "generally poor and inadequate" as well as training that was "not adequate to enable underwriters to perform risk selection and discretionary pricing responsibilities in a way that supports company goals and objectives." At least four instances of incorrect application of the IRPM schedule filing were observed by the Internal Auditors and one person of the 25 or so interviewed by the Internal Audit team questioned the correctness of IRPM usage procedures. It became apparent to Internal Audit that activities essential to assure regulatory compliance and a professional work product in our Commercial Lines department were not present.

Concurrently, Eric Nelson, appointed Vice President of Underwriting¹ on January 1, 2002, discovered the incorrect IRPM usage and ordered corrective action to achieve regulatory compliance on February 4, 2002. My oversight, and one I've personally acknowledged to the Commissioner, was the failure to order refunds upon discovery of the incorrect application of the IRPM rules. We've consistently refunded premiums in the past when we've discovered

¹ The separate positions of Vice President Personal Lines and Vice President Commercial Lines were eliminated. Don Cutler, former Commercial Lines Vice President, retired from the company on January 31, 2002.

procedural errors, so the failure to do so in this instance is out of step with our established business practice.

We acknowledge that identifying all of the affected IRPM file errors has taken much longer than originally anticipated. We manually reviewed 34,713 files to assure ourselves that no policyholder was overlooked. The first refund checks for Business Auto policies will be issued on November 17th. The refunds will include interest calculated at 5% representing the time value of the funds for the period in question. A sample of the explanatory letter accompanying the refund is enclosed for your records. We expect the IRPM project to be completed by December 31, 2003 and are highly confident that all affected policyholders will have received refunds.

We are very concerned that the IRPM error is characterized as a "deliberate misuse of schedule rating plans..." "Deliberate" implies an event that had corporate approval. If our actions had been deliberate, then we would not have targeted Commercial Lines for an Internal Audit commencing in January 2002 nor would we have *stopped the incorrect application of the schedule rating plan* when it was discovered by both the Internal Auditors and Mr. Nelson.

The Internal Audit report to the Board of Trustees dated February 4, 2002 fully documents the state of affairs present within the Commercial Lines department at the time of the audit. The report expressed significant concerns as to department leadership overall, the sufficiency of communication and the adequacy of general training.

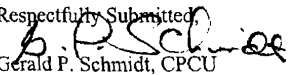
In Mr. Nelson's April 10, 2002 response to the Board of Trustees and Internal Audit regarding the use of discretionary pricing in Commercial Lines he states: "It was recently discovered that some underwriters were debiting accounts through IRPM's also but with no justification. This practice has been stopped and debiting will occur only with proper documentation."

In hindsight, we think it harsh to label as deliberate one facet of an underwriting function when the activity could just as easily be viewed as it was by our Internal Auditors in their report of February 4, 2002: "The Commercial Lines Underwriting Department is not performing in a way that supports company goals and objectives. Numerous deficiencies were identified during the audit project, which are likely producing an adverse impact on loss ratios, expense ratios and service results."

Neither the 1987 Market Conduct Audit, the never publicly released Personal Injury Protection Audit of August 2000 nor any of our statutory financial examinations suggest that Mutual of Enumclaw Insurance Company deliberately sets out to violate laws and regulations. We do not believe it appropriate for the 2003 Market Conduct Audit to express that point of view.

In closing, we again wish to express our appreciation for the diligence and professionalism exhibited by the examination staff. We believe we've addressed all fail points identified by the examination and we look forward to a follow up review to demonstrate the completeness of our compliance responses.

Respectfully Submitted,


Gerald P. Schmidt, CPCU

President

Mutual of Enumclaw Insurance Company

Encl.

SUMMARY OF ACTIONS TAKEN TO CORRECT BUSINESS PRACTICES THAT FAILED THE EXAMINATION STANDARD

1. The company must notify the OIC when an agent's appointment has been revoked.
[RCW 48.17.160(3)]

Response: The violation was for an Oregon Agent that had a Washington non-resident license. We notified the Oregon OIC of the termination but failed to notify Washington OIC. The notice was sent immediately after we learned of the omission and we have changed our checklist to ensure compliance in the future.

2. The company applies schedule rating plans to all policies as applicable in their filing.
[WAC 284-24-100]

Response: Training session occurred May 22, 2003, for all underwriting staff to review market conduct examiners comments and Washington statutes as related to the proper application of IRPM's.

Spot audits have been done for compliance and proper documentation has been re-emphasized in regular underwriting meetings.

Internal Audit Department will conduct independent audits for compliance beginning in 2004 for proper application of scheduled rating plan.

3. Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing then in effect.
[RCW 48.19.040(6)]

Response: Correcting all boatowner policies at renewal using correct rounding method.

Amending as necessary all noted policies in report at renewal for protection class, smoke alarm credits, good student discounts and preferred customer credits.

Have notified all commercial staff to be sure to apply experience rating for any eligible commercial auto policy.

IRPM application actions noted above.

4. The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. [WAC 284-30-390]

Response: Shortly after the Conduct Examiner advised that the company was not settling automobile claims in accordance with standards established for prompt, fair and equitable claims settlements due to the use of "book values" in our calculations, a training memo was prepared and our total loss evaluation worksheet was re-formatted to omit the option for the use of "book value." The training memo and new total loss evaluation worksheet were distributed to all field claim personnel. Subsequent internal reviews reveal compliance.

Lack of supporting documentation to establish salvage values was isolated to a single material damage appraiser who was advised of the appropriate documentation required to meet the requirements of WAC 284-30-390. Subsequent reviews reveal compliance.



Mutual of Enumclaw

October 27, 2003

To: Sally Carpenter
From: Eric Nelson
Re: Market Conduct Review Refunds

Sally,

As we discussed on the telephone today you wanted a summary of the issues surrounding the delay in getting refunds made to our policyholders. I can assure you that we wish to send these refunds as soon as possible but we also want to make sure we are treating each and every policyholder fairly and accurately. We have spent enormous amounts of time and labor to accomplish this task and have no desire to have it go on any longer than necessary. We originally projected a completion date of 10-1-03 which we felt was easily done and would give us a 30 day window to still hit the 11-1-03 date. Unfortunately we didn't anticipate the multitude of problems that arose. I have attempted to describe below the key issues that we discovered that caused us to go back and do much of the work over.

Key Issues

- Early in the process of reviewing the files manually we discovered that there were multiple policy periods affected by the misuse of invalid IRPM reasons. This created many more issues than anticipated due to tying the correct premium to the correct term.
- We also discovered that we needed to review the intent of the underwriter versus simply looking for the words "market conditions". We determined there were other reasons that in hindsight we felt were not appropriate either and elected to include those in the files slated for a refund.
- We learned that the manual file reviews required very strict and rigorous internal controls and that experienced staff were required to do the reviews correctly. This was again related to the fact we had to try and determine underwriter intent versus simple catch phrases like "market conditions" on the worksheets.

Chronology of Events

Ultimately those issues above resulted in completely starting over on the file review of over 15,000 files to make sure the information being used to create the refunds was as accurate as possible. Below I have sketched a brief chronology of what occurred and when. While in hindsight I wish I would have apprised you sooner of developments, it was only the middle of October that we realized that the wheels had come off the bus. We tasked the group to re-work the project plan and give us a new completion date and when we knew the new date we called you.

1st week of September – We discovered that the BAP worksheet developed to identify files needing refunds was incorrect. It had many incorrect policy terms. We then recreated the database and found anomalies again which led us to go back and audit the files. This is when we discovered that our prior auditing had not been thorough enough and that many of the files were not counted for the refund while others were counted that should not be.

2nd week of September – We spent the week auditing and determining the scope of errors and tried to identify which files needed to be reviewed again. (We were looking for whether a specific reviewer was the problem so we could go after that subset of files) What we concluded was we had no confidence in our prior work and would have to re-pull all of the files and review again.

3rd and 4th week of September – Started re-pulling the BAP files and then started auditing the other lines of business to see if we had the same problem. We created rigid procedures with more enhanced documentation and multiple people reviewing each file. The new procedures took twice as long to do the reviews but we are confident that they were now being done correctly with only minimal chance of error.

1st week of October – Found numerous errors in the Artisan policy reviews and determined we had to re-pull these files as well. We still felt that if we only re-worked Artisan and BAP we could still achieve the 11-1-03 due date.

2nd week of October – File auditors reported on their findings and the error ratios ranged from 4% to as much as 12% in terms of correctly identifying files requiring refunds. We determined that this error ratio was too high and all files would need to be re-worked. We asked the project manager to provide us with a new estimate of completion by 10-15-03.

3rd week of October – We received the new estimate of 12-30-03. At this point we should have called you but I elected to await the return from vacation our internal audit manager to seek his counsel on the issue and determine who should call you as he had been the primary contact person during the audit.

4th week of October – Upon his return we reviewed the date given with the project team and I then called you and left a message for you to return my call.

5th week of October - You called me back and I reported our delay.

As you can see we have encountered problem after problem throughout this process due to its inherently manually intensive nature. We have worked many hours of overtime and weekends to attempt to get this done as soon as possible. Our auditing and reworking of the files is based upon our desire to take the fairest approach to all policyholders. While it has created a short delay we are adding in the time value of money by including interest with the refunds. The inclusion of interest was at our election. Again I apologize for the delay and I hope I have explained sufficiently the reasons. I have tasked the group doing the work to begin sending refunds as soon as a line of business has been completed. This will allow us to start sending refunds within a few weeks.

If you need any further clarification please call me.

Sincerely,

Eric Nelson



November 17, 2003

Dear Policyholder:

As a result of a routine Market Conduct Examination performed by the Office of Insurance Commissioner, it was discovered that the premium on your policy was calculated incorrectly.

Enclosed is a check for the total premium refund that is a result of rating errors for policy terms between 9/01/01 and 12/31/02. We have also added 5% interest to the refund amount to reflect the time value of your money.

If you have questions about this refund please contact our customer service center at 1-800-456-7750.

Mutual of Enumclaw Insurance Company